

Policy Clarifications and Instructions for the Fair Rental Value and Pass-Through Data Report

The following policy clarifications apply to the Fair Rental Value (FRV) and Pass-Through Data Report, hereafter referred to as the “report.” These policy clarifications are incorporated into State Administrative Rule R414-1-5 which incorporates the Utah State Plan by reference. CMS Pub 15-1 and Utah State Plan, Attachment 4.19-D also provides regulatory support for the report. While these instructions provide valuable information for completing the report, Administrative Rule will ultimately dictate the use of reported information.

The report consists of separate FRV and “Pass-Through” components. The FRV component further consists of three types of projects - bed additions, bed replacements and major renovations.

The report is “optional.” This means each nursing home assumes the responsibility to make sure its report, if submitted, is **received** by Health Care Financing on or before the first business day of March.

If no report is received by HCF or if the report is received late, the nursing home may not be eligible for an FRV rate adjustment for the next fiscal year beginning July 1st. A report that is incomplete and/or improperly organized will not satisfy the reporting requirements. It is important that if you have questions during the preparation of the report please contact Dick Jeffs at dickjeffs@utah.gov or (801) 538-6034, or Roger Price at rogerprice@utah.gov or (801) 538-6468.

Policy clarifications for each component and project type follow:

Fair Rental Value Component

General Policy Clarifications for all FRV Project Types

1. There are three separate project types. They are bed additions, bed replacements, and major renovations.
2. The definitions of bed additions, bed replacements and major renovations are mutually exclusive. There is only one correct classification for each project.
3. Bed and/or cost information for any project can only be reported once, in one reporting category and in one FRV reporting period.

4. Only capitalized projects are to be included in the report. All projects with a historical cost of \$5,000 or more and an asset life of two years or more must be capitalized on the nursing home's general ledger. However, each nursing home may choose to use lower dollar and asset life thresholds for capitalization. **Please note the capitalization criteria must be consistent for FRV and Facility Cost Profile (FCP) reporting.**

5. The capitalization criteria must be used consistently from period to period and can only be changed with proper notice and approval. The grouping of expenses in the fixed asset schedule for capitalization purposes is based on generally accepted accounting principles and CMS Pub 15-1. The nursing home may use different capitalization policies for financial, and tax reporting. However, if separate capitalization policies are used, the nursing home knowingly assumes the additional record keeping responsibilities.

6. For facilities that rent or lease their buildings, an FRV adjustment based on capital expenditures may still be available providing the landlord is willing to supply supporting documentation showing the work satisfies the requirements.

7. All projects must be fully completed, put into operation and subject to depreciation (capitalized) on the nursing home's general ledger/financial statements before being included on the report. There is no interim reporting for FRV purposes as a project is in process.

8. CMS Pub 15-1 Section 104.1 identifies and defines the types of assets that are subject to depreciation and are therefore included in the FRV concept which is a substitute for depreciation.

The types of assets are buildings, building equipment, major movable equipment, minor equipment, land improvements and leasehold improvements.

9. All projects must be fully completed within 24 months. For this reason it is necessary to report the start and completion date for each project. Each start and completion date must include the day, month and year. Supporting documentation must be provided to support the start and completion dates. Supporting documentation may include building permit applications and final building inspection reports.

Specific Policy Clarifications for Bed Addition Projects

The definition of "Bed Addition" is as follows:

"As used in the fair rental value calculation, a capitalized project which adds additional beds to the facility. This is to be new and complete construction. Beds that had been previously banked and have since come back online (i.e., unbanked) are not considered additional beds. An increase in total licensed beds and new

construction costs will support claims of additional beds.” (Section 200, Utah State Plan, Attachment 4.19-D)

The following policy clarifications apply to bed addition projects:

1. Cost information must be reported for all bed addition projects. However, the cost will only be used to verify each project meets the nursing home’s capitalization requirements. For this reason, the nursing home will not be required to provide supporting documentation for the reported cost. However, such documentation must be maintained and available for inspection for a period of four years.
2. Report the number of beds added for each bed addition project. A copy of the nursing home license before and after the bed addition should be submitted to support the number of beds added for each project.
3. Provide a brief description of each bed addition project.

Specific Policy Clarifications for Bed Replacement Projects

The definition of “Bed Replacement” is as follows:

“As used in the fair rental value calculation, a capitalized project that furnishes a bed in the place of another, previously existing, bed. Room remodeling is not considered a replacement of beds, rather it is to be new and complete construction. Beds that had been previously banked and have since come back online (i.e. unbanked) are not considered replacement beds.” (Section 200, Utah State Plan, Attachment 4.19-D)

The following specific policy clarifications apply to bed replacement projects:

1. Cost information must be reported for all bed replacement projects. However, the cost will only be used to verify that each project meets the nursing home’s capitalization requirements. For this reason the nursing home will not be required to provide supporting documentation for the reported cost. However, such documentation must be maintained and available for inspection.
2. Report the number of beds replaced for each project along with the start and completion dates.
3. Provide a brief description of each bed addition project.

Specific Policy Clarifications for Major Renovation Projects

The definition of “Bed Addition” is as follows:

As used in the fair rental value calculation, a capitalized project with a cost equal to or greater than \$500 per licensed bed...Renovations extend the life, increase the productivity, or significantly improve the safety (e.g., asbestos removal) of a facility as opposed to repairs and maintenance which either restore the facility to, or maintain it at, its normal or expected service life. Vehicle costs are not considered as major renovation capital expenditure items. (Section 200, Utah State Plan, Attachment 4.19-D)

The following specific policy clarifications apply to major renovation projects:

1. The term “Major Renovation Project” can apply to a defined renovation project with a start date and end date. And, the term can refer to a grouping of capital assets that, when recorded on the FRV forms, meet the 24-month and \$500 per licensed bed tests.
2. Cost information must be submitted for all major renovation projects. The submitted costs will be used to verify that each project meets the nursing home's capitalization requirements. In addition, the costs will be used to determine the “equivalent” number of beds used in the FRV rate adjustment. Actual licensed beds are not applicable to major renovation projects, except for use in determining the \$500 per bed threshold.
3. Each nursing home must submit copies of supporting documentation for all the reported costs. It is essential that the supporting documentation be properly itemized, summarized and organized. The supporting documentation must be cross-referenced to the report.
4. In addition to the capitalization requirement there is an additional test for major renovation projects. That is, the cost per licensed bed must be \$500 or more.
5. As the state plan does not provide specific criteria on how to distinguish one capitalized project from another, the nursing home has the flexibility to report capitalized projects separately or to combine capitalized projects together into one or more groupings for FRV reporting purposes. The choice of how to group projects for FRV reporting is up to the nursing home. However, a capitalized project as per the nursing facility's fixed asset schedule cannot be divided between two FRV projects or project types.
6. The \$500 per licensed bed test and the 24-month test will be applied based on the same grouping scheme. That is, grouping projects may help in satisfying the \$500 per licensed bed test but it may extend the completion time past 24 months thereby disqualifying the project for FRV rate consideration. It is the responsibility of the nursing home to establish the optimal grouping.

7. Not all costs are eligible to be included in the report and considered in the FRV rate adjustment.

- Repair and maintenance costs must not be included on the report because they are not capital costs. Repair and maintenance costs restore the asset to or maintain it at its normal or expected service life. Betterments and improvements extend the life of the asset, increase the productivity, or significantly improve the safety of the asset. Betterments and improvements can be capitalized subject to the rules for capitalization.
- Land costs, although usually capitalized, are not to be submitted on the report. The FRV rate adjustment is based on the concept that capital projects result in actual beds or equivalent beds that are used to adjust the age of the facility which in turn affects accumulated depreciation which in turn affects the property rate. Because land has no accumulated depreciation it is not a factor in the FRV rate adjustment. FRV recognizes land but as a percentage of the building and fixtures value.
- Transportation equipment (vehicle) costs are not included in the FRV concept and must not be included in the report.
- Cost not related to patient care must not be included in the report.

8. There is also some flexibility as to when to report a project. As previously noted, no project can be reported until it is fully completed. Also, no project can be reported in more than one project type within a given year or in more than one reporting period. However, if a project is complete, and not previously reported, the reporting of the project can be delayed from one FRV reporting period to another in order to accumulate enough dollars to satisfy the \$500 per licensed bed test. That said, the project grouping is still subject to the 24-month test.

Pass-Through Components

Specific Policy Clarifications for Property Taxes and Property Insurance

1. Pass through property tax and property insurance costs are to be reported for the period January 1, 2007 through December 31, 2007. Pass through costs will be taken from the FY 2007 FCP for those nursing homes that do not submit the optional report.
2. Only taxes and insurance costs for **real estate** are to be included in the pass-through component of the report. Insurance and taxes for transportation equipment are not to be reported.
3. Because the reporting period for the pass-through component may not be the same as property tax and property insurance periods, it will be necessary to pro-rate costs from different periods into the pass-through reporting period.

Instructions for Completing the Fair Rental Value and Pass-Through Data Report

The report is made up of seven schedules:

Schedule 1: Facility Information

Schedule 2: Capitalized Projects

Schedule 3: Major Renovations Details (there are three blank forms (Major Renovation: 1, Major Renovation: 2 and Major Renovation: 3) provided for reporting major renovations. You can add additional Schedule 2 forms by copying and pasting a blank form onto a new sheet tab. Be sure to number any additional Schedule 2 forms in consecutive order. For example the first added schedule would be Major Renovation:4)

Schedule 4: Summary of Supporting Documentation and Reconciliation to FRV Schedule 3
By Line Item Number

Schedule 5: Supporting Documentation Batch Cover Page

Schedule 6: FRV and Pass-Through Summary

Schedule 7: Bed Banking Detail

The following instructions will assist you in filling out the report. These instructions are incorporated into State Administrative Rule R414-1-5 which incorporates the Utah State Plan by reference . While these instructions provide valuable information for completing the report, Administrative Rule will ultimately dictate the use of reported information.

Schedule 1: Facility Information and Accuracy Certification

On this schedule the owner/officer and preparer certify the reported information is true and accurate with his/her signatures. Contact information for the owner/officer and the preparer are to be completed at the bottom of the schedule.

Schedule 2: Capitalized Projects

In the top middle section report, record the facility's capitalization dollar threshold, licensed beds, and banked beds as of February 29, 2008. Changes in licensed beds or banked beds during the reporting period are not to be considered.

From the facility's fixed asset schedule, identify all capitalized projects completed during the FRV reporting period March 1, 2007 through February 29, 2008. Determine which of these projects should be reported in the current FRV reporting period and how they should be classified by project type (i.e. bed addition, bed replacement, or major renovation).

Bed Additions and Bed Replacements: Column A contains project numbers used to identify projects throughout the rest of the FRV forms. The project numbers in Column A provide a link back to the facility's fixed asset schedule. The nursing home should cross-reference their fixed

asset schedule with the project numbers from Schedule 2 to aid in auditing. However, a one-to-one relationship won't always exist between a facility's fixed asset schedule and Schedule 2. For example, a facility might have multiple line items on their fixed asset schedule that refer to only one bed addition or bed replacement on Schedule 2.

In Column B write a brief description for each capitalized project. Column C doesn't apply to bed additions or bed replacements. In Column D report the project begin date. In Column E report the project completion date. In Column F list the dollar amount capitalized for each project. In Column G record the number of beds added or replaced. Column H is self-calculating.

Major Renovations: The project numbers in Column A provide a link to the facility's fixed asset schedule. The nursing home should cross-reference their fixed asset schedule with the project numbers from Schedule 2 to aid in auditing. However, a one-to-one relationship won't always exist between a facility's fixed asset schedule and Schedule 2. For example, a facility might have multiple line items on their fixed asset schedule that refer to only one major renovation on Schedule 2. In Column B write a brief description for each capitalized project. In Column C, record the Major Renovation number from the top of Schedule 3 (i.e. 1, 2, 3, etc.).

Schedule 3: Major Renovation Details

There are three major renovation sheet tabs. Each sheet tab represents a grouping for applying the 24 month and \$500 per licensed bed tests. On each tab record the items that make up the project(s) from Schedule 2 that are to be included in this grouping. At the top left of the schedule, enter the Major Renovation begin date. The "Major Renovation Completion Date" and "Time to Complete Project in Years" cells are self calculating. Column A has line item numbers from 1 to 25 (add more rows if necessary). In Column B write a brief description of the expense. In Column C record the date of the expense. In Column D record the capitalized cost amount. Column E is for the Division of Health Care Financing auditor to record if there are supporting documents. Please note that if supporting documents are not included for a particular expense, that item will be excluded for consideration in the \$500 per bed test. When providing an invoice as a supporting document, a facility must also show proof of payment (i.e. cancelled check, credit card receipt, etc.).

The supporting documentation must be submitted in **chronological order** by line item number. Write the line item number on the supporting documents. Staple the supporting documentation together for each line item. Do not submit this form until the variance line on it is zero.

Schedule 4: Summary of Supporting Documentation and Reconciliation to FRV Schedule 3 By Major Renovation and Line Item Number

The purpose of this form is to provide for a consistent and organized link between FRV Sch 3 line items and the related supporting documentation. One of these sheets must be completed for each line item on Schedule 3 for all major renovation projects.

In the spaces provided on the form identify the nursing home name, the Sch 3 major renovation number and the line number. If there is more than one batch of supporting documentation per Sch 3 line item, it is important that each batch be referenced by the batch number per Col 1 on the schedule.

In Col 2 enter a very brief description of the expense and/or a reference to the supporting documentation. In Col 3 enter the total dollar amount per the supporting documentation. In Col 4 enter the dollar amount (if any) that is not applicable to the FRV line item. Col 5 is self-calculating.

Enter the dollar amount reported on FRV Sch 3 for the related line item in the space provided. It is important that the total of Col 5 and the amount reported for this line item agree. If the variance is greater or less than zero, there is no problem. Do not submit this form until the variance is zero.

Note the batch number per Col 1 above on the related folder or supporting documentation.

Schedule 5: Supporting Documentation Batch Cover Page

The Batch Cover Page provides a reference between the Supporting Documentation and Schedule 4.

Schedule 6: FRV and Pass-Through Summary

The top two-thirds of Schedule 4 summarizes bed additions, bed replacements, major renovations, licensed beds, and banked beds from preceding schedules.

On the bottom right, record your facility's square footage applicable to nursing facility services and any square footage applicable to non-nursing facility services such as assisted living, residential care, apartments, etc. Also, record the accrued expense for real estate property taxes from January 1, 2007 to December 31, 2007, and the accrued expense for real estate property insurance from January 1, 2007 to December 31, 2007.

At the bottom of the schedule in Column C, record the patient days by source of payment (i.e. Medicaid, Private, etc.) for the period January 1, 2007 to December 31, 2007.

Schedule 7: Bed Banking Detail

Detail reporting of bed banking is required for possible use in the FRV calculation. Use this tab to report detail of banked beds by room number. For each room, as needed, enter the room number in Column B, the number of licensed beds in that room in Column C, the number of banked beds in that room in Column D, and, using the drop-down reasons, select the most appropriate reason for banking the beds in Column F. Repeat this process for all rooms with banked beds.

Use the summary totals and differences on the top of the form to validate the data entered. The form is not considered complete if the “New Difference” is not equal to zero (cell C9).

If there is a difference, highlighted in red, between the “Sch 7 Total” and the “Sch 2 Total”, then verify data entered until there is no difference. In validating the information reported, there may be differences between “Sch 2” and “Sch 7” reported licensed beds. This may be because only the rooms with bed banking are detailed in this schedule and there are more licensed beds in other rooms of the facility. If that is the case, then enter the number of licensed beds not detailed in this schedule by room into the “# Not Listed Here” yellow highlighted cell (cell C8).

Submitting the Report:

After completing the forms, save the forms and submit an electronic copy to dickjeffs@utah.gov and mail one hard copy of the report along with all of the supporting documentation to:

Via U.S. Mail

Utah Department of Health
Division of Health Care Financing
Audit Unit, 3rd Floor
Attn: Dick Jeffs
PO Box 143104
SLC, UT 84114-3104

Via UPS or FedEx

Utah Department of Health
Division of Health Care Financing
Audit Unit, 3rd Floor
Attn: Dick Jeffs
288 North 1460 West
SLC, UT 84116

Reminder: The hard copy report along with all supporting documentation and the electronic copy report are due to Dick Jeffs no later than March 3, 2008. Reports received after this date will not be considered in the following fiscal year's FRV calculation. This includes reports received after the deadline even though they may have been postmarked by the deadline.